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July International Trade

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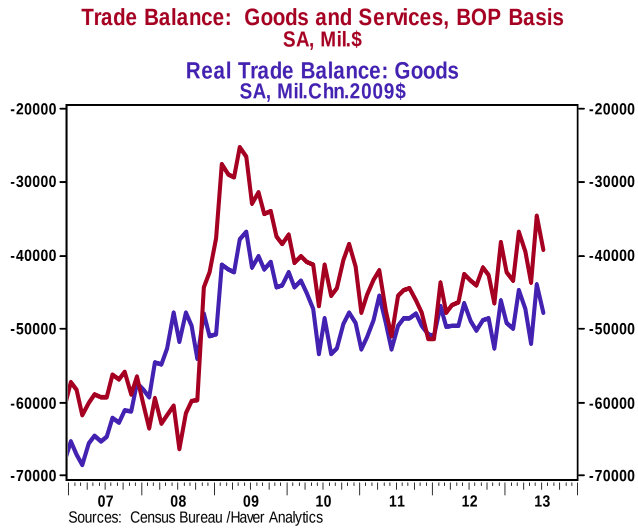
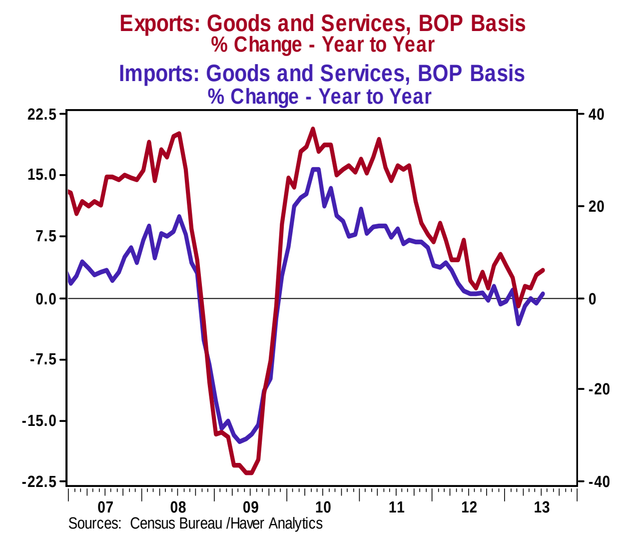
- The trade deficit in goods and services came in at $39.1 billion in July, slightly larger than the consensus expected $38.6 billion.
- Exports declined $1.1 billion in July, due to capital goods (such as aircraft) and consumer goods (such as jewelry and gem diamonds). Imports rose $3.5 billion, led by oil and autos.
- In the last year, exports are up 3.3% while imports are up 0.8%. Petroleum imports are down 0.9% from a year ago, while non-petroleum imports are up 1.3%.
- The monthly trade deficit is $4.3 billion smaller than a year ago. Adjusted for inflation, the trade deficit in goods is $1.2 billion smaller than a year ago. This is the trade indicator most important for measuring real GDP.





Implications: After shrinking sharply in June, the trade deficit widened in July. In July, imports rose, while exports slipped slightly. Over the past year, total exports are up 3.3% and total imports are up a smaller 0.8%. Behind these short-term gyrations, the biggest story in the trade sector is US energy production due to horizontal drilling and fracking. Since July 2007, overall petroleum exports are up 276%. Petroleum imports are up 27% in those same six years, but have fallen by 14.9% since April 2010. If current trends continue, and the US fixes its pipeline and refinery issues, the US will be running a petroleum trade surplus within four years. Translated: This means energy independence. Simply amazing. We also notice that total exports to the European Union are up 8.7% from a year ago, which is consistent with other recent data suggesting the EU as a whole is coming out of its recession. Sales to the Pacific Rim are up 0.8% and sales to South/Central America are up 12.7%. We expect more gains in exports in the year ahead. Usually, when the US economy is growing, the trade deficit tends to expand relative to the overall size of our economy. However, given higher energy production, the trade deficit is much less likely to expand like that anytime soon and will more likely than not add to real GDP growth in Q3. In the meantime, today's data suggest the trade sector will subtract 0.1 percentage points from the real GDP growth rate in Q2, versus a government estimate last week that it had a neutral impact. As a result, it looks like real GDP grew at a 2.6% annual rate in Q2.

International Trade *All Data Seasonally Adjusted, $billions*	Jul-13 Bil $	Jun-13 Bil $	May-13 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-39.1**	-34.5	-43.7	-39.1	-39.5	-43.5
Exports	**189.4**	190.5	186.5	188.8	187.4	183.4
Imports	**228.6**	225.1	230.2	228.0	227.0	226.8
Petroleum Imports	**31.3**	29.0	30.9	30.4	30.5	31.6
Real Goods Trade Balance	**-47.7**	-43.8	-51.9	-47.8	-47.5	-48.9

Source: Bureau of the Census